



8011-01p  
SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79311; File No. SR-BOX-2016-45)

November 15, 2016

Self-Regulatory Organizations; BOX Options Exchange LLC; Order Approving a Proposed Rule Change to Amend the Treatment of Quotes to Provide that All Quotes on BOX are Liquidity Adding Only

I. Introduction

On September 13, 2016, BOX Options Exchange LLC (“BOX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend the treatment of quotes to provide that all quotes on BOX are liquidity adding only. The proposed rule change was published for comment in the Federal Register on October 3, 2016.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to amend the treatment of incoming quotes to BOX so that they are only accepted if they are liquidity adding.<sup>4</sup> Under the Exchange’s proposed rule change, if an incoming quote or quote update is marketable because it would execute against a resting order or quote on the BOX Book,<sup>5</sup> it will be rejected. The Exchange will not reject

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 78946 (September 27, 2016), 81 FR 68069 (October 3, 2016) (“Notice”).

<sup>4</sup> See Notice, supra note 3 (proposing a new IM-8050-3 to Exchange Rule 8050).

<sup>5</sup> The term “Central Order Book” or “BOX Book” means the electronic book of orders on each single option series maintained by the BOX Trading Host. See Exchange Rule 100(a)(10).

incoming quotes during the opening of the market.<sup>6</sup> As is the case today, rejected quotes will not be considered when determining a Market Maker's quoting obligations.<sup>7</sup>

The Exchange also proposes to amend the treatment of incoming quotes after they interact with the Price Improvement Period ("PIP").<sup>8</sup> Currently, when an incoming quote is on the same side as a PIP Order, it may cause the PIP auction to end early, if, at the time of submission, the price of the incoming quote would cause an execution to occur prior to the end of the PIP.<sup>9</sup> Under the proposal, the incoming quote will continue to cause the PIP auction to end early if the conditions of Rule 7150(i) exist. However, after the PIP auction is concluded,

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<sup>6</sup> Transactions occurring on the opening are deemed to neither add nor remove liquidity and therefore are exempt from the liquidity fees and credits on the Exchange. See Section II.C. of the BOX Fee Schedule.

<sup>7</sup> On a daily basis, a Market Maker must, during regular market hours, make markets and enter into any resulting transactions consistent with the applicable quoting requirements, such that on a daily basis a Market Maker must post valid quotes at least sixty percent (60%) of the time that the classes are open for trading. These obligations apply to all of the Market Maker's appointed classes collectively, rather than on a class-by-class basis. See Exchange Rule 8050(e); see also Exchange Rule 8040.

<sup>8</sup> Options Participants, both Order Flow Providers and Market Makers, executing agency orders may designate Market Orders and marketable limit Customer Orders for price improvement and submission to the PIP. Customer Orders designated for the PIP ("PIP Orders") shall be submitted to BOX with a matching contra order equal to the full size of the PIP Order. See Exchange Rule 7150.

<sup>9</sup> Specifically, the submission to BOX of a Market Order on the same side as a PIP Order will prematurely terminate the PIP when, at the time of the submission of the Market Order, the best Improvement Order is equal to or better than the NBBO on the same side of the market as the best Improvement Order. The submission to BOX of an executable Limit Order or generation of an executable Legging Order on the same side as a PIP Order will prematurely terminate the PIP if at the time of submission: (1) the Buy (Sell) Limit Order or Legging Order price is equal to or higher (lower) than the National Best Offer (Bid) and either: (i) the BOX Best Offer (Bid) is equal to the National Best Offer (Bid); or (ii) the BOX Best Offer (Bid) is higher (lower) than the National Best Offer (Bid) and the price of the best Improvement Order is equal to or lower (higher) than the National Best Offer (Bid); or (2) the Buy (Sell) Limit Order or Legging Order price is lower (higher) than the National Best Offer (Bid) and its limit price equals or crosses the price of the best Improvement Order. See Exchange Rule 7150(i).

if the incoming quote is executable against resting orders or quotes on the BOX Book, it will be rejected. Additionally, currently, when an incoming quote on the opposite side of the PIP Order is received such that it would cause an execution to occur prior to the end of the PIP auction, the incoming quote will be immediately executed.<sup>10</sup> Under the proposal, any remaining balance of the incoming quote that did not execute against the PIP Order, and that would execute against a resting order or quote on the BOX Book, will be rejected.

The Exchange represents that it will provide BOX Participants with notice, via Information Circular, about the implementation date of the proposed rule change.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b) of the Act.<sup>11</sup> Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>12</sup> which requires, among other things, that a national securities exchange have rules designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

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<sup>10</sup> Specifically, a Market Order on the opposite side of a PIP Order will immediately execute against the PIP Order when, at the time of the submission of the Market Order, the best Improvement Order does not cross the NBBO on the same side of the market as the PIP Order. The submission to BOX of an executable Limit Order or generation of an executable Legging Order on the opposite side of a PIP Order will immediately execute against a PIP Order when the Sell (Buy) Limit Order price is equal to or crosses the National Best Bid (Offer), and: (1) the BOX Best Bid (Offer) is equal to the National Best Bid (Offer); or (2) the BOX Best Bid (Offer) is lower (higher) than the National Best Bid (Offer) and neither the best Improvement Order nor BOX Best Offer (Bid) is equal to or crosses the National Best Bid (Offer). See Exchange Rule 7150(j).

<sup>11</sup> 15 U.S.C. 78f(b). In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission believes that the proposed rule change is designed to help Market Makers more efficiently submit quotes to provide liquidity on BOX, which could benefit investors. The Commission notes that Market Makers still will be able to take liquidity on BOX by submitting orders in or out of their appointed classes.<sup>13</sup> In addition, according to the Exchange, the proposed rule change will not alter a Market Maker's obligations pursuant BOX Rules 8040 and 8050, including the obligation to provide continuous two-sided quotes on a daily basis.<sup>14</sup> Further, the Commission notes that other options exchanges offer liquidity adding only order types.<sup>15</sup>

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<sup>13</sup> Id.

<sup>14</sup> Id. at 68070–71.

<sup>15</sup> See id. (citing International Securities Exchange, LLC (“ISE”) Rule 715(n) and NYSE Arca Options, Inc. (“NYSE Arca”) Rule 6.62(t)).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>16</sup> that the proposed rule change (SR-BOX-2016-45) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Brent J. Fields  
Secretary

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<sup>16</sup> 15 U.S.C. 78s(b)(2).

<sup>17</sup> 17 CFR 200.30-3(a)(12).

